

Fiscal Note

Fiscal Services Division



HF 636 – Casino Promotional Play, Tax Phase Out (LSB1391HV)

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Fiscal Note Version – New

Description

House File 636 provides for the phase out of the state wagering tax on the adjusted gross receipts on redeemed promotional play at Iowa casinos. Beginning in FY 2016, the Bill caps the amount of tax that the casinos pay on redeemed promotional play at \$27.0 million annually. In subsequent years, the tax is reduced in increments of \$5.0 million per year until the tax on promotional play is eliminated in FY 2022. The Bill amends the method of calculating the wagering tax on gambling game receipts as provided in Iowa Code section **99F.11** and provides updated definitions of “promotional play receipts” and “taxable gross receipts”. The Bill defines promotional play receipts as the total sums wagered on gambling games with tokens, chips, electronic credits, or other forms of cashless wagering provided by a licensee without an exchange of money. Taxable gross receipts is defined as adjusted gross receipts less promotional play receipts. Current law requires the wagering tax to be calculated on the amount of adjusted gross receipts (AGR) (gross receipts reduced by paid-out winnings). Under current law, redeemed promotional play revenue is included in the calculation of AGR. The phase out provisions of the Bill are repealed on July 1, 2021.

Background

Current gambling revenues are taxed by the State based on adjusted gross receipts received from gambling games. The first \$1.0 million of gross receipts are taxed at a rate of 5.0% and the next \$2.0 million of gross receipts are taxed at a rate of 10.0%. The tax rate imposed on gross receipts that exceed \$3.0 million is calculated on an individual fiscal year basis as follows:

- Licensees of a gambling entity with a racetrack enclosure claiming AGR \$100.0 million or more are taxed at a rate of 24.0%.
- All other licensees are taxed at a rate of 22.0%.

There are currently 18 gambling entities operating in Iowa, with a new casino expected to be operational in July 2015. Of these 18 entities, two are taxed at 24.0% and 16 are taxed at 22.0%.

The distribution of the taxes collected on the total AGR of the 18 gambling entities is as follows:

- 20.0% to the State of Iowa for deposit in the Rebuild Iowa Infrastructure Fund (RIIF).
 - 1.0% to the city and county where the casino is located.
 - 0.8% is deposited in the County Endowment Fund; and
- 0.2% is divided equally between the RIIF and the Iowa Economic Development Authority (IEDA) for tourism programs.

Assumptions

- Annual AGR on promotional play in FY 2016 is estimated to total \$120.4 million; this is equal to the amount of AGR on promotional play for FY 2014.
- The Bill limits the amount of state wagering taxes collected on promotional play at \$27.0 million annually; this is equal to the amount collected in FY 2014.

- The Bill provides for the distribution of the taxes collected during the seven-year phase out period as listed below. This distribution equates to approximately the same distribution that would occur under current law.
 - 4.0% to the cities and counties where the casinos are located.
 - 4.0% to the County Endowment Fund.
 - 1.0% to the IEDA for tourism marketing.
 - The remainder is distributed to the RIIF.

Fiscal Impact

House File 636 will eliminate \$27.0 million of state wagering taxes currently collected annually on promotional play over a seven-year period (from FY 2016 to FY 2022) in \$5.0 million annual increments. The following table shows the impact of the promotional play tax phase out by fiscal year and the impact of the tax reduction by fund and entity. There is no impact to the State General Fund.

HF 636 - Promotional Play Tax Phase Out								
		FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Tax on Promotional Play - Current Law		\$ 27,000,000	\$ 27,000,000	\$ 27,000,000	\$ 27,000,000	\$ 27,000,000	\$ 27,000,000	\$ 27,000,000
Promotional Play Tax Reduction		0	-5,000,000	-10,000,000	-15,000,000	-20,000,000	-25,000,000	-27,000,000
State Wagering Tax Collections - HF 636		<u>\$ 27,000,000</u>	<u>\$ 22,000,000</u>	<u>\$ 17,000,000</u>	<u>\$ 12,000,000</u>	<u>\$ 7,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 0</u>

Impact of Tax Reduction	Dist. %	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
State - Rebuild Iowa Infrastructure Fund	91.0%	\$ 0	\$ -4,550,000	\$ -9,100,000	\$ -13,650,000	\$ -18,200,000	\$ -22,750,000	\$ -24,570,000
Cities/Counties	4.0%	0	-200,000	-400,000	-600,000	-800,000	-1,000,000	-1,080,000
County Endowment Fund	4.0%	0	-200,000	-400,000	-600,000	-800,000	-1,000,000	-1,080,000
IEDA Tourism	1.0%	0	-50,000	-100,000	-150,000	-200,000	-250,000	-270,000
Total	100.0%	<u>\$ 0</u>	<u>\$ -5,000,000</u>	<u>\$ -10,000,000</u>	<u>\$ -15,000,000</u>	<u>\$ -20,000,000</u>	<u>\$ -25,000,000</u>	<u>\$ -27,000,000</u>

Sources

Iowa Racing and Gaming Commission (IRGC)
Legislative Services Agency
Department of Management

/s/ Holly M. Lyons

April 15, 2015

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.